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EXPERT MEETING ON

Social Inclusion Programmes and Their Impact on Sustainable and Inclusive Development and Growth



Social Inclusion Programmes: Experiences and Lessons from the Malawi Farm Input Subsidies Programme

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Geneva, 27–28 November 2014



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Growth, Geneva, Palais des Nations, 27 – 28 November 2014***

- ❑ Roles of Input Subsidies
- ❑ Impacts of Input Subsidies on Growth and Development
 - ❑ Reflecting on FISP
- ❑ Strategic Issues from the Malawi Experience
 - ❑ Objective – growth and development oriented
 - ❑ Targeting
 - ❑ Sustainable Graduation

Social Protection

- Transfer to vulnerable groups
- Lower food prices and/or higher wages for recipients & non-recipients

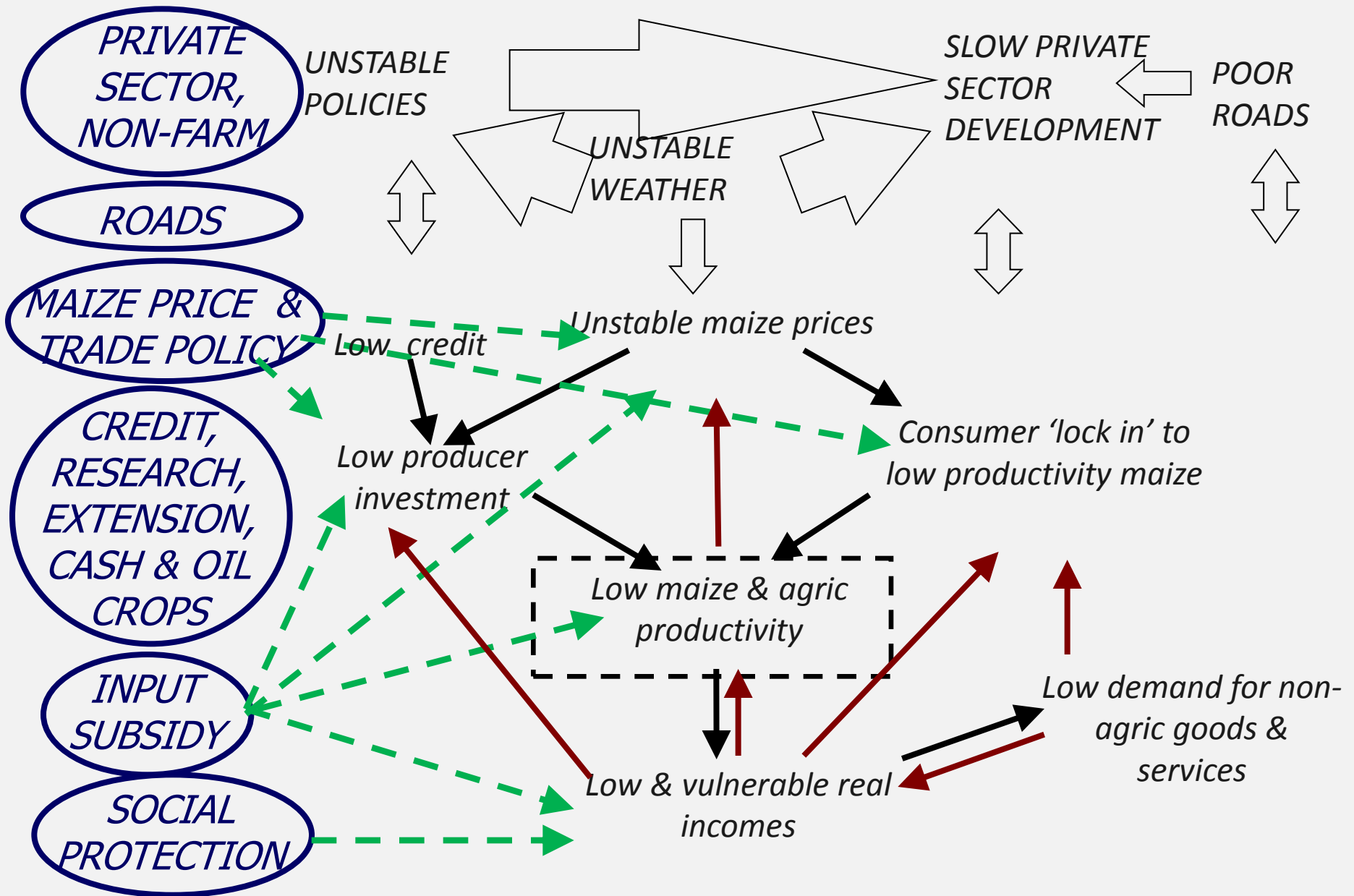
Input Profitability

- Improving profitability of input use
- Addressing affordability constraints – lack of financial services

Household and national food security

- Health, nutrition and education outcomes

Impacts of Subsidies: LMAP Trap in Malawi



- ❑ Programme started in 2005/06 season
 - ❑ Targeted programme using input vouchers
 - ❑ Targets resource poor smallholder farmers and reaches more than 50% of rural farm households
 - ❑ Subsidizes improved maize and legume seeds, and fertilizers for maize production
 - ❑ Subsidy on fertilizers started at 70% of market price in 2005/06 to 97% in 2013/14
 - ❑ The volume of subsidized fertilizers has on average been 140,000MT of basal and urea fertilizers

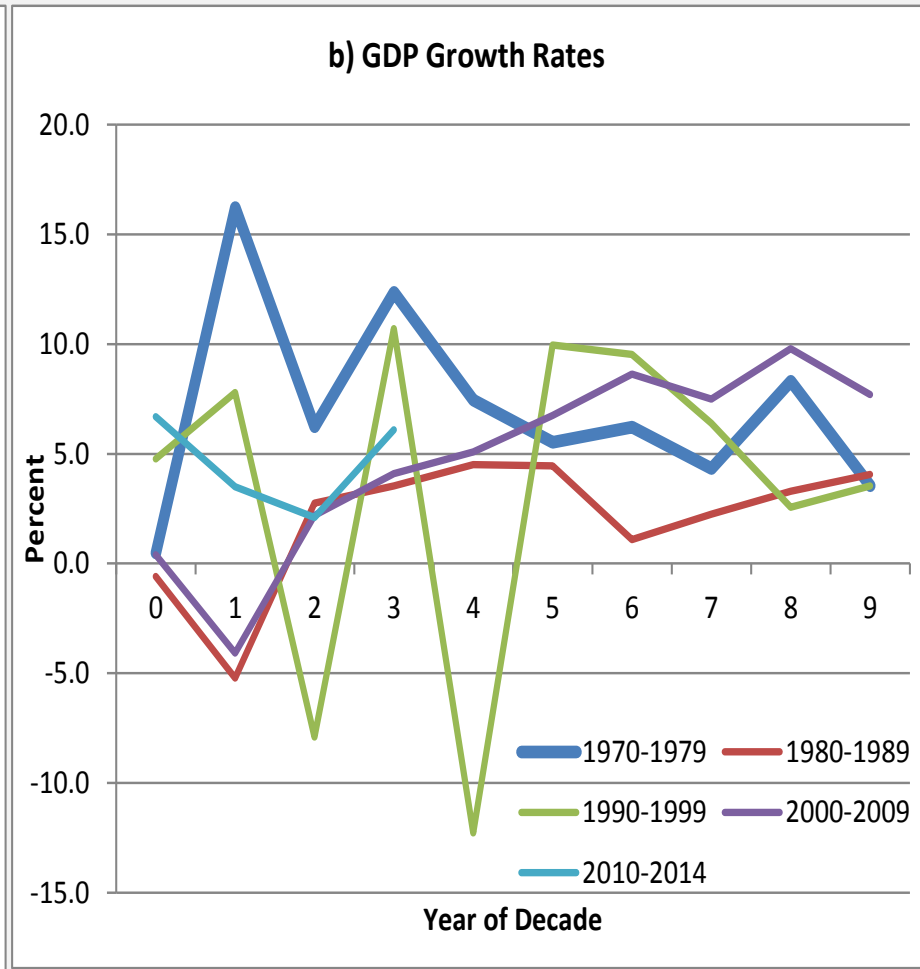
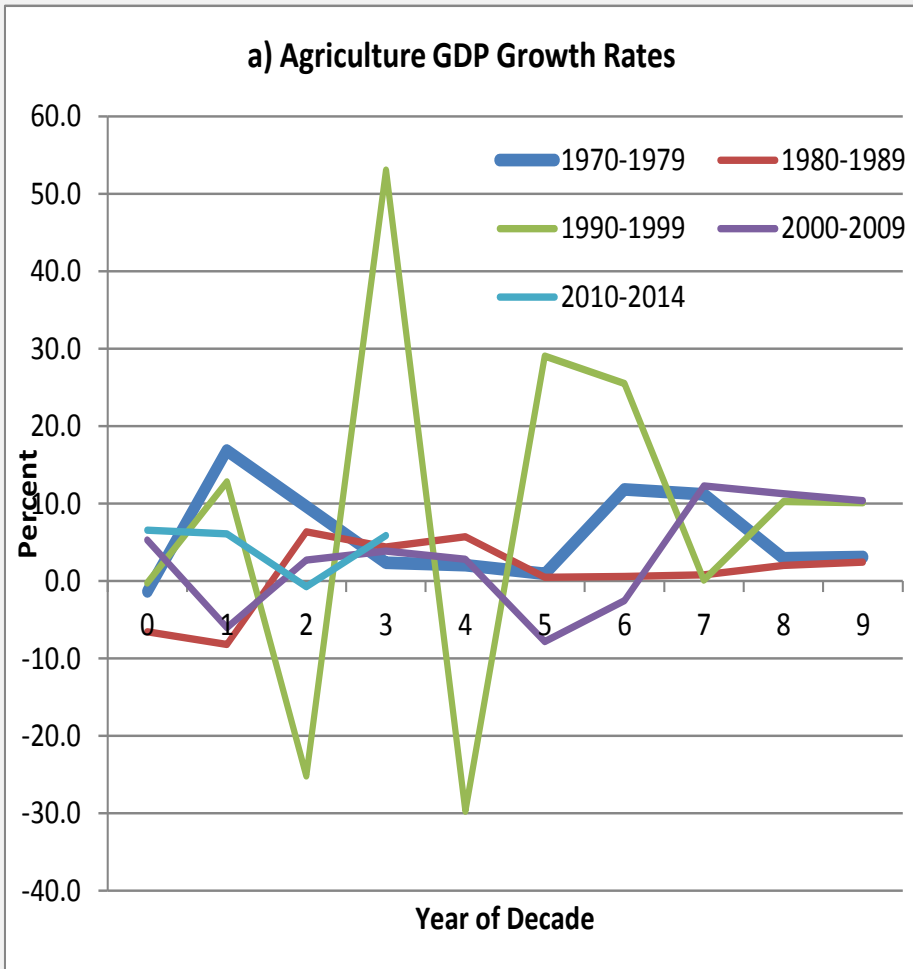
Impacts of Subsidies: Case of FISP



- ❑ Maybe, it depends on objective outcomes
 - ❑ Contested impacts from empirical studies?
 - ❑ Productivity?
 - ❑ Food security, maybe yes given changes in population
 - ❑ Economy-wide (indirect) effects?

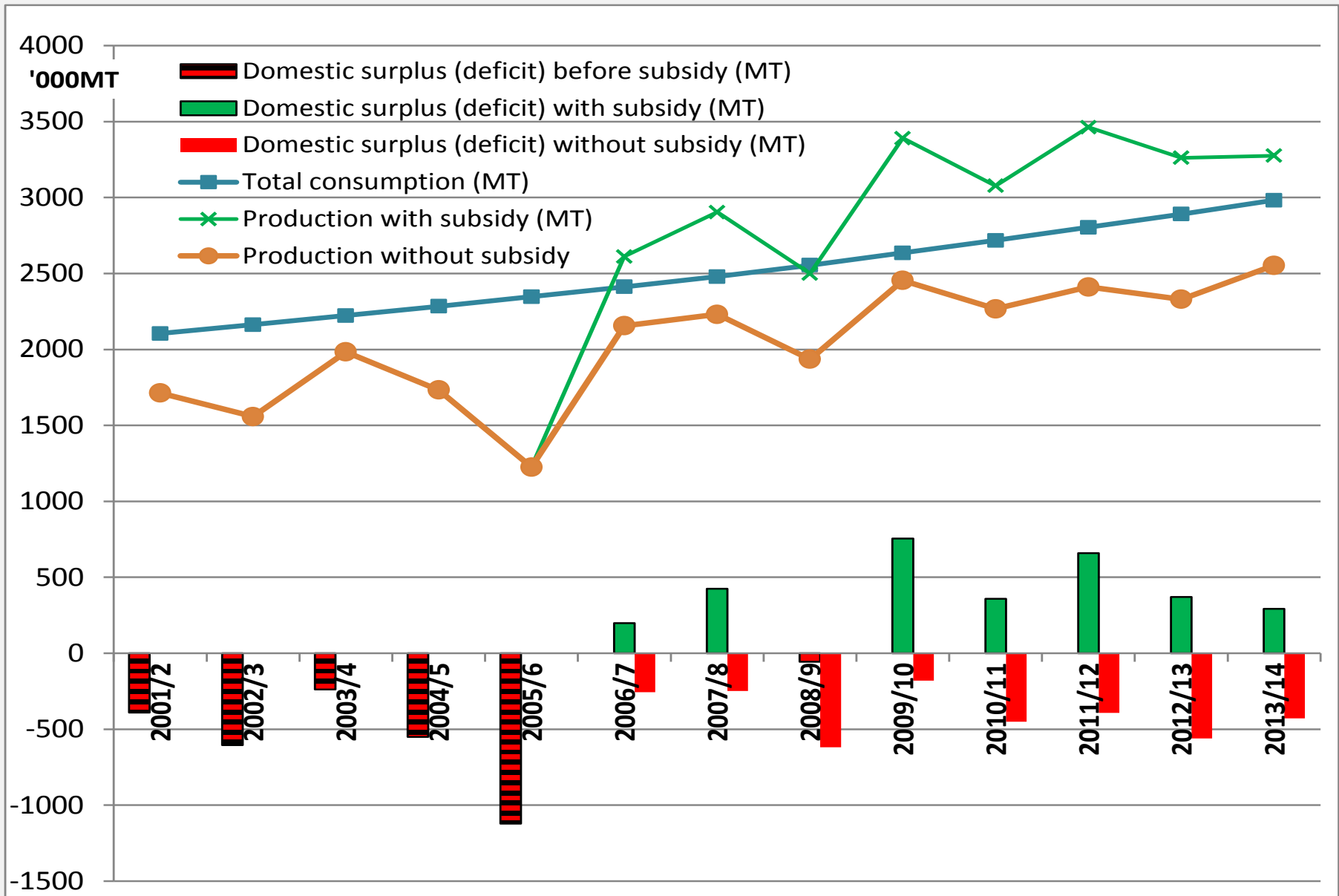
- ❑ Population Growth
 - ❑ But the issue of population has not been put in context – Malawi has more people to feed today than in 2005/06
 - ❑ Yet the level of subsidized inputs have remained the same at about 160,000 MT
 - ❑ Between 2001/2 and 2013/14 seasons, consumption requirements have increased by 45% (24% since FISP)
 - ❑ But there has been some maintenance of food security in most of the years with FISP (without requiring major imports)

Agricultural & Economic Growth Impacts?

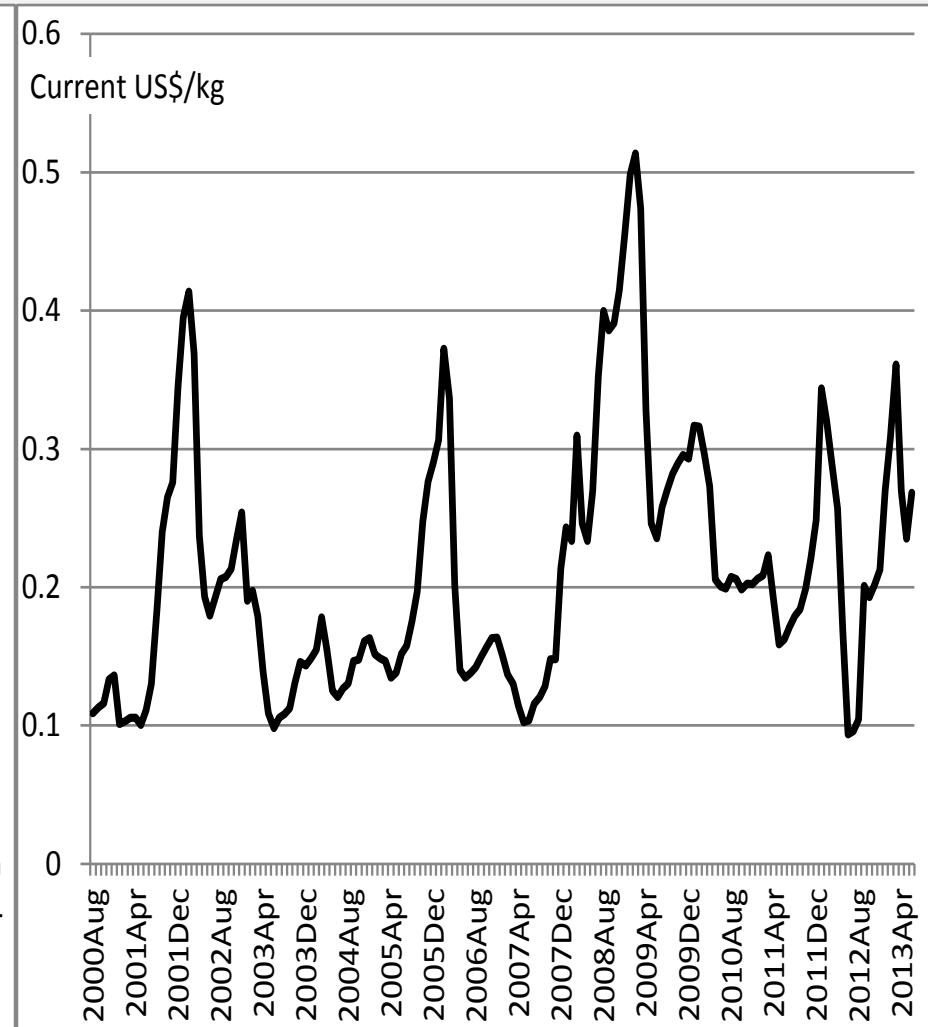
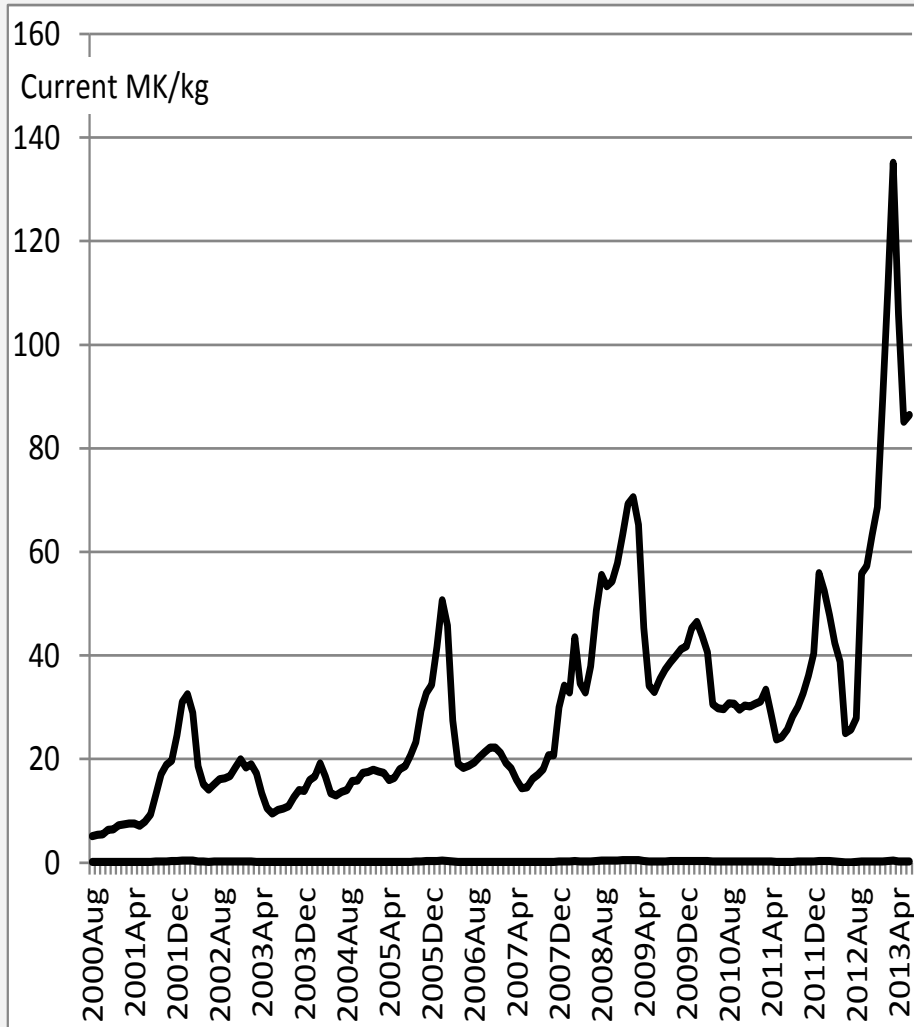


- ❑ Poverty fell marginally from 52.4% (2005) to 50.7% (2011)
- ❑ Rural poverty increased from 55.6% to 56.6%
- ❑ Ultra-poverty increased from 22.3% to 24.5%

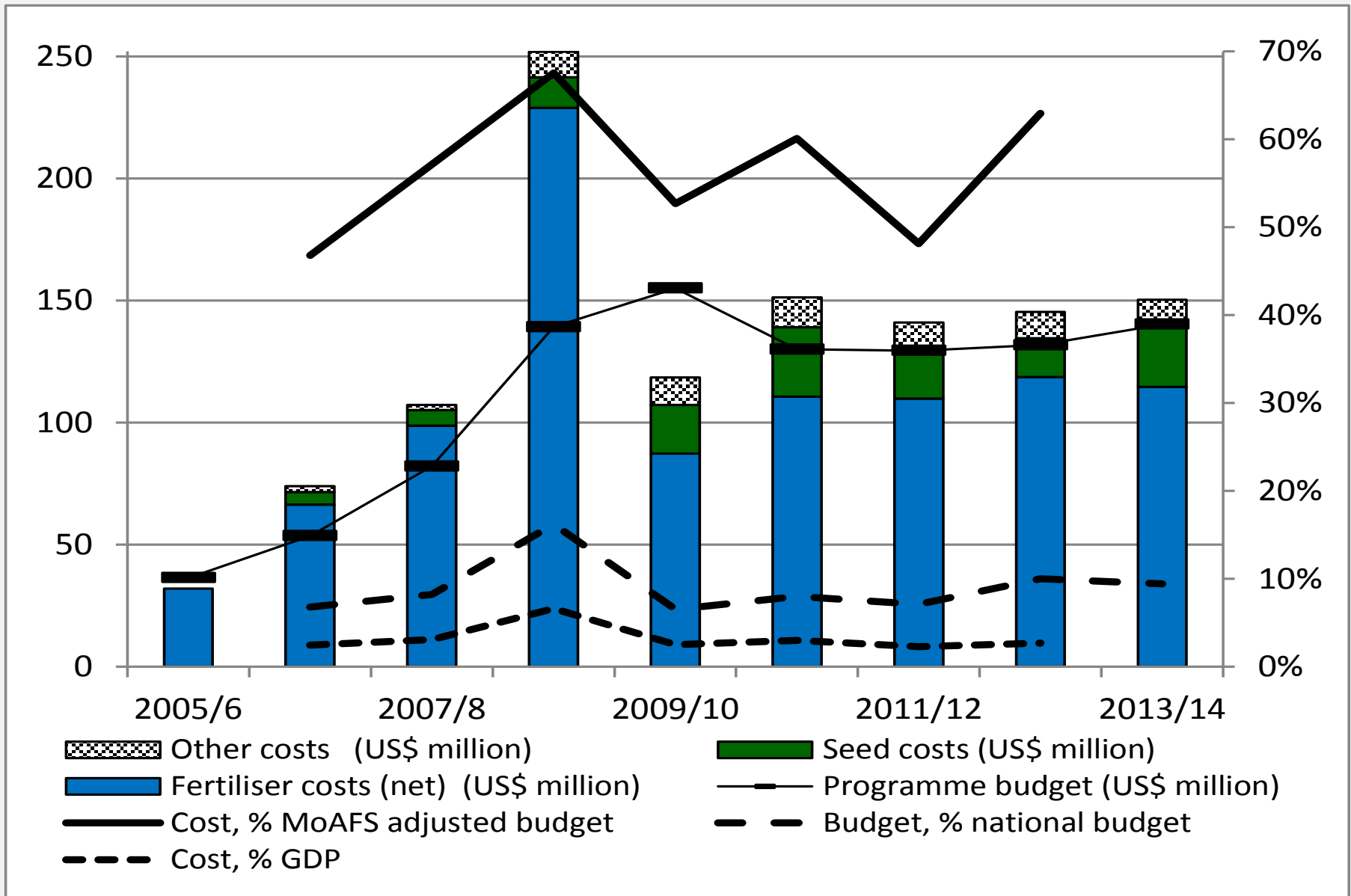
Maize Production Impacts?



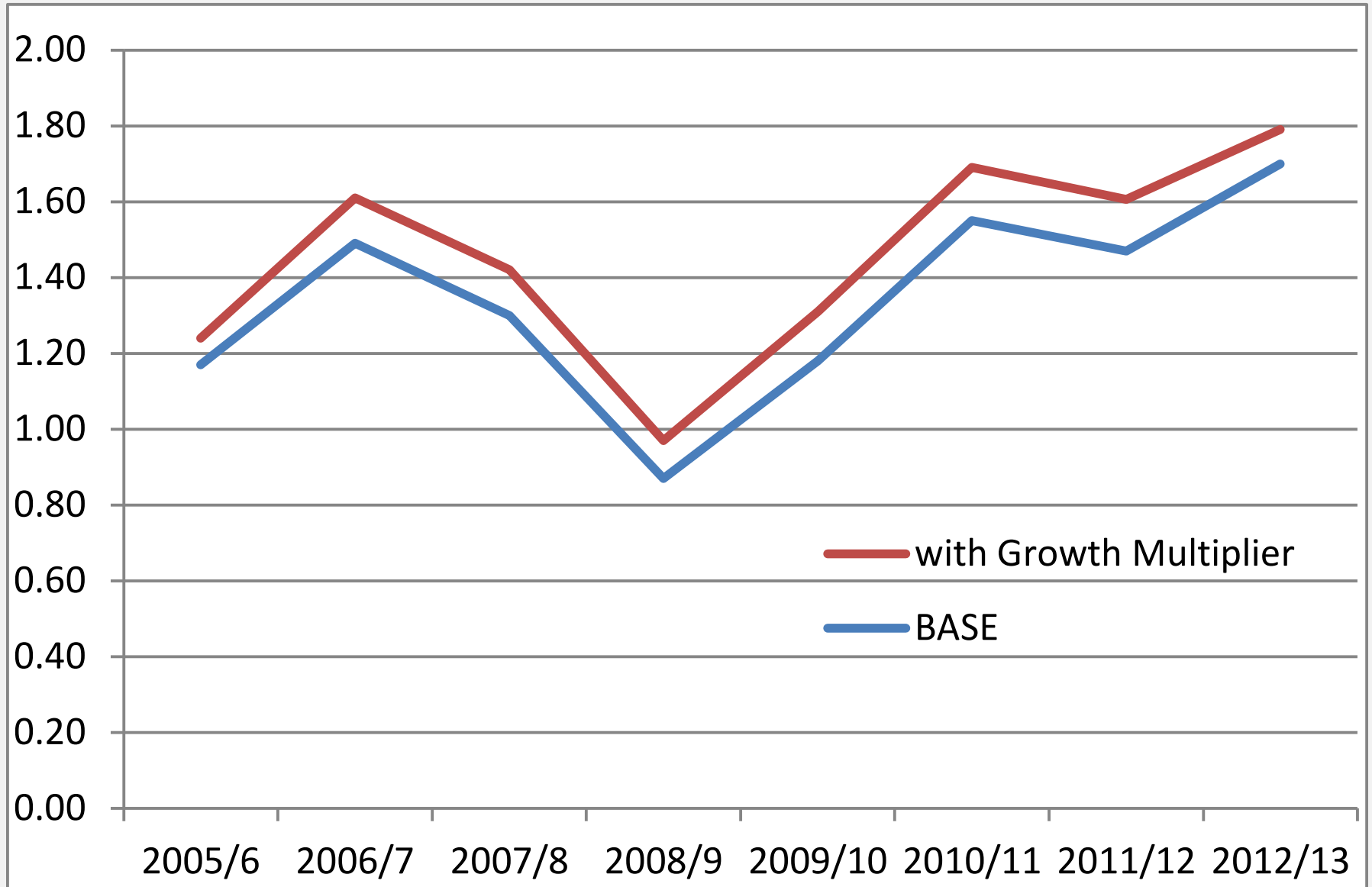
Impacts on Maize Prices



Programme costs ... too much?



Benefit Cost Ratios



Framework for Subsidies? Key Principles



- ❑ If well-designed and implemented, production subsidies can promote inclusive growth and development
 - ❑ Clear **anchor** objective – one key objective that can achieve multiple outcomes
 - ❑ **Proxy means tests** targeting – multiple indicators, not easily manipulated
 - ❑ Strong coordination with social protection – data gathering and unified targeting criteria
 - ❑ Graduation and sustainable subsidization – incentives and penalties!
 - ❑ Time bound, cohort targeting and pre-announced subsidy levels
 - ❑ Strong monitoring and evaluation – evidence into practice

□ Growth-Oriented Programme objective

- Anchor objective to focus on **achievement of productivity!**
- *“To increase land and labour productivity in smallholder food production”*

Other objectives maybe achieved consequentially without explicitly expressing them

- Food security is implicit in increased maize productivity
- Increases productivity also deals with improved incomes and hence poverty reduction
- Improved productivity ensure sustainable outcomes
- Productivity can lead to farm and non-farm diversification

☐ Targeting

- ☐ Targeted households should be resource poor productive smallholder farmers (poor but not ultra-poor)
- ☐ Resource poor unproductive farmers (ultra-poor) should be targeted for social cash transfers
 - ☐ If transfers under SCT are lower than under FISP – cost savings

Other considerations

- ☐ Ensure minimal displacement effects
- ☐ Objective and multidimensional criteria (proxy means tests)
- ☐ Ensure providing platform for stepping-up or stepping-out
- ☐ Strong coordination with social protection programmes to avoid multiple dipping
- ☐ Targeting challenges & costs
- ☐ **National identification system, not biometrics only for FISP**

Differentiating Types of Support?

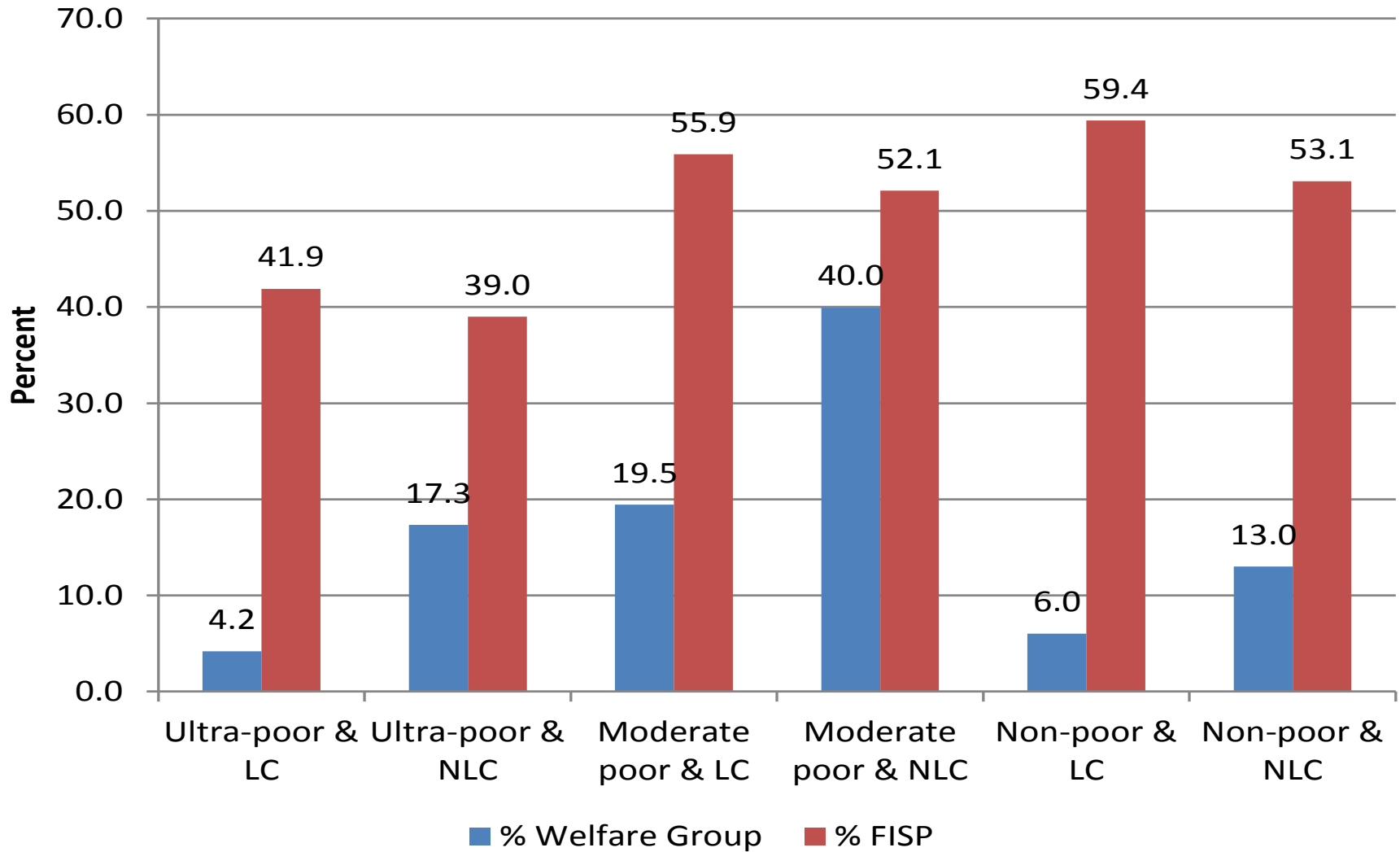


Rural Population Category	Percept of Rural Population	Type of Support
Ultra-poor & labour constrained	4.2	Social Cash Transfer
Ultra-poor & non-labour constrained	17.3	Farm Subsidy + Public Works to support coupon redemption
Moderate-poor & labour constrained	19.5	Social Cash Transfer
Moderate-poor & non-labour constrained	40.0	Farm Subsidy
Non-poor & labour constrained	6.0	None
Non-poor & non-labour constrained	13.0	None

Targeting Problems?



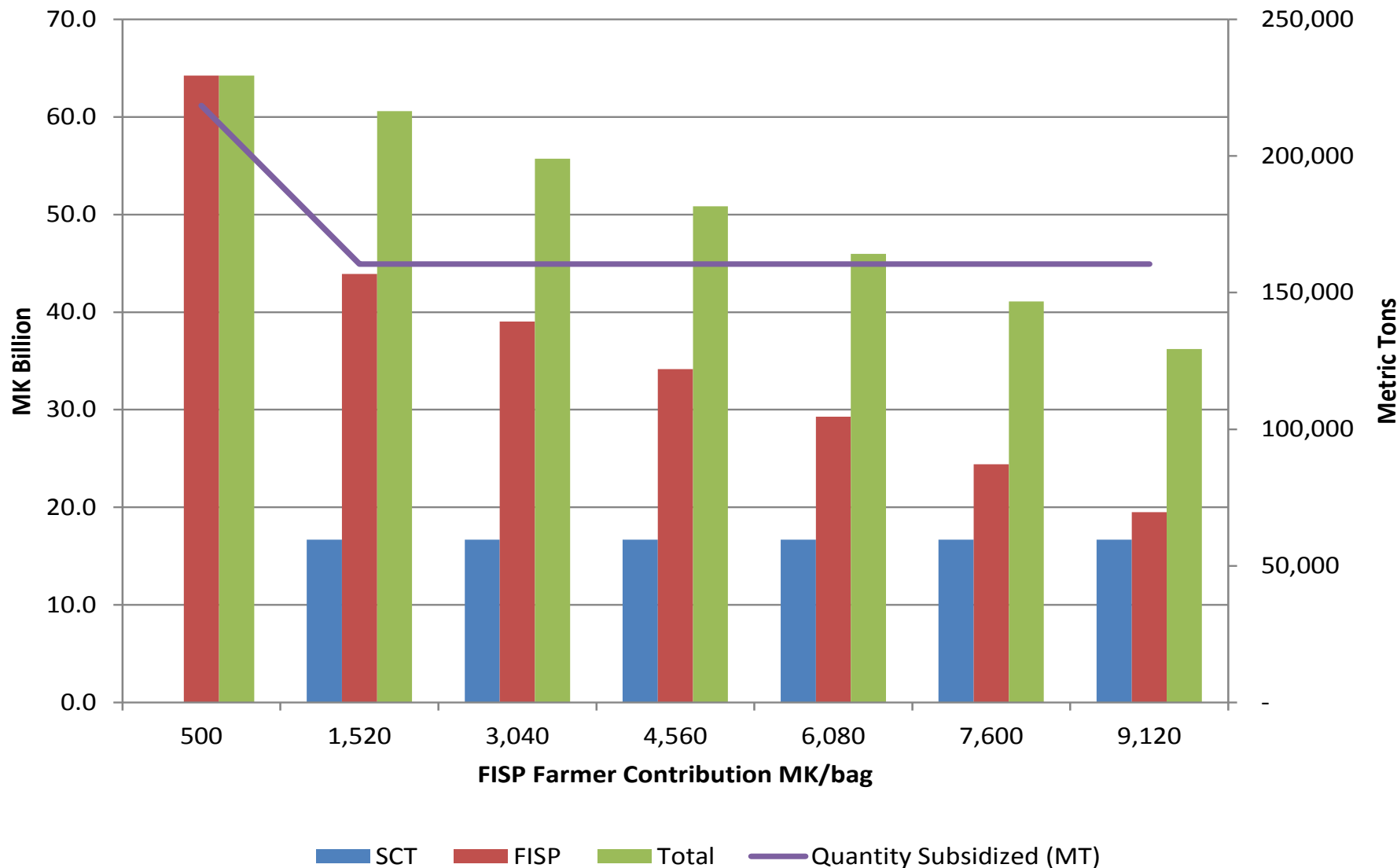
MDP1+Labour Constraint (LC)/Non-labour constraint (NLC)



Targeting SCTP & FISP with price variation



Supporting 76.7% of Rural Households (20.3% SCTP & 56.3% FISP)



☐ Sustainable Graduation

- ☐ Design must embrace the concept of sustainable graduation
- ☐ Fixed subsidy and flexible farmer voucher redemption price or increasing farmer contributions
- ☐ Repeated cohort target and progressive reduction in subsidy
- ☐ Pre-announced future subsidy levels – 5-year targeting cycle
- ☐ Subsequent cohorts may entail less people needing subsidies

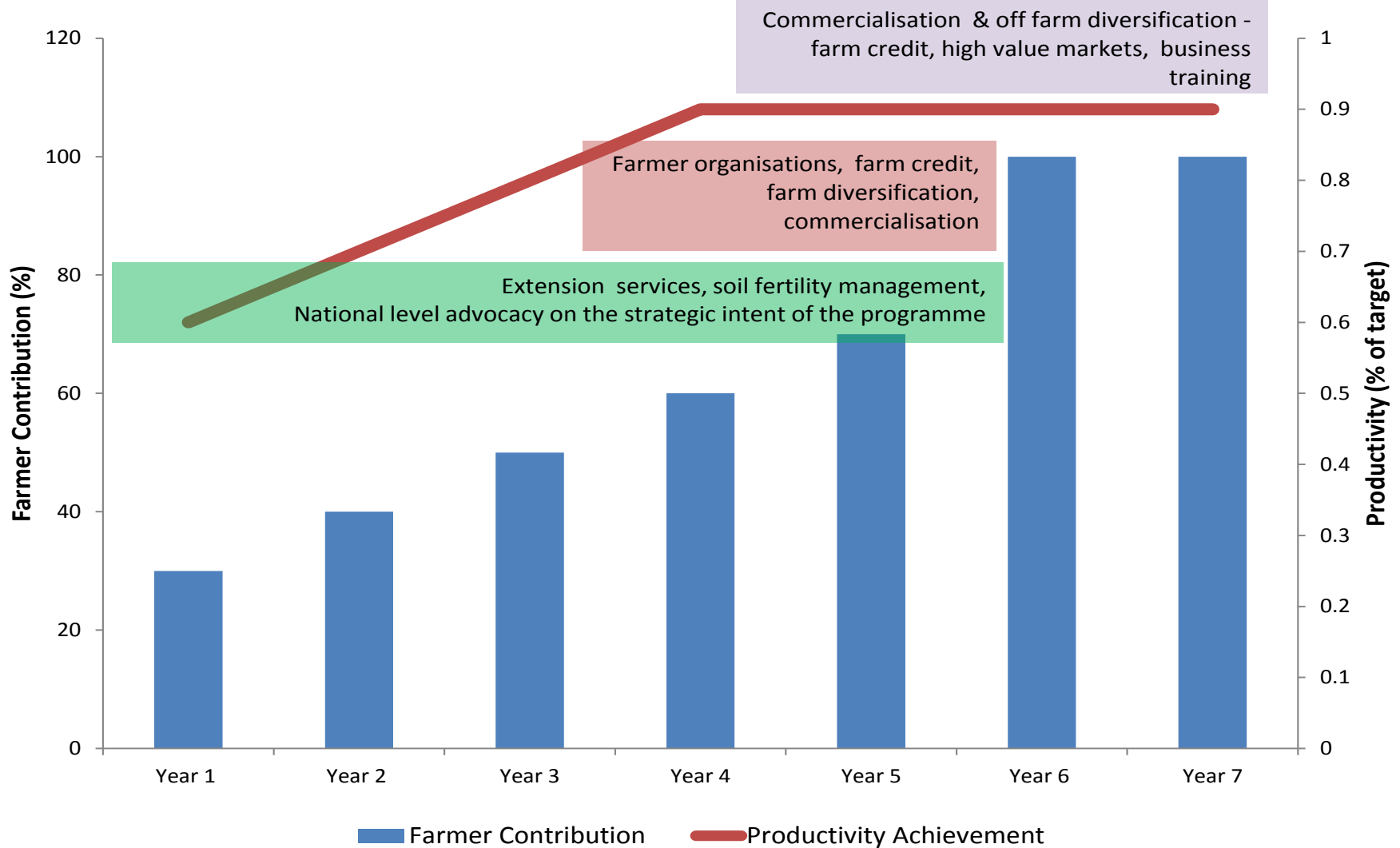
Other considerations

- ☐ Requires complementary interventions – soil conservation & fertility, diversification, credit access, extension services, maize markets, farmer organisations
- ☐ Strong internal monitoring and evaluation to determine achievement of objective and graduation conditions

FISP Graduation Model?



Monitoring and Evaluation



Other Strategic Issues



- Political commitment to sustainable approaches to subsidization
- Private sector involvement
- Fertiliser formulations
- Budget & tender timing & processes

Conclusions



- ❑ Agricultural input subsidies can be successful
 - ❑ Address critical farm, livelihood & wider economy constraints to input use on staple crops
 - ❑ Good physical yield responses to subsidised inputs (soils, seeds, rainfall)
 - ❑ Efficient implementation
 - ❑ Coherent vision
 - ❑ Political commitment (a paradox?)

- ❑ Agricultural input subsidies can also be costly failures

- ❑ Political attractiveness requires strong attention to their effectiveness & efficiency

- ❑ Attention should be paid to efficient targeting, complementary investments and sustainable graduation

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